

Message Text

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TAGS:

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SUBJ: US STEEL HIGH BIDDER IN SIDOR EXPANSION PROGRAM

1. SUMMARY: ON JUNE 17, US STEEL OFFICIALS CALLED ON AMBASSADOR TO REPORT ON BID OPENINGS FOR SIDOR EXPANSION PROGRAM WHICH HAD TAKEN PLACE PREVIOUS DAY. US STEEL SUBMITTED HIGHEST BID FOR PROJECT AND FEARS BIDS MAY BE AWARDED TO GERMAN CONSORTION HEADED BY GHH. END SUMMARY.

2. ON JUNE 17, R M GUTTSHALL, JR., VICE PRESIDENT ENGINEERING OF USS ENGINEERS AND CONSULTANTS, INC., IN COMPANY WITH RAYMOND D. RYAN, US STEEL CORPORATION REPRESENTATIVE IN VENEZUELA, CALLED ON AMBASSADOR TO REPORT ON BID OPENINGS FOR SIDOR EXPANSION PROGRAM WHICH HAD TAKEN PLACE PREVIOUS DAY. THE EXPANSION PROGRAM INCLUDES THE CONSTRUCTION OF TWO ELECTRIC FURNACES, A CONTINUOUS SLAB MILL, AND A BILLET MILL. IN FEBRUARY 1975, BIDS FOR EACH OF THE FOUR INSTALLATIONS WERE OPENED. SIDOR OFFICIALS, WHO CONSIDERED THE FEBRUARY BIDS TO BE HIGH, THEN PROPOSED TO THE BIDDING COMPANIES THAT COMBINED BIDS BE SUBMITTED, ONE FOR THE ELECTRIC FURNACE BILLET MILL COMPLEX, AND ANOTHER FOR THE ELECTRIC FURNACE CONTINUOUS SLAB CASTING COMPLEX. BIDDING ON THE COMBINED PACKAGE, US STEEL WAS ABLE TO REDUCE ITS BID BY \$55 MILLION, WHILE DEMAG REDUCED ITS BY \$129 MILLION, CONFIDENTIAL

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AND GHH REDUCED ITS BY \$150 MILLION.

3. WHILE THE FEBRUARY BID OPENINGS SHOWED ALL CONTENDERS TO BE IN A HIGHLY COMPETITIVE POSITION, THE COMBINED PACKAGE BIDS LEFT GHH AND DEMAG WITH A CONSIDERABLE ADVANTAGE OVER US STEEL. BIDS WERE BROKEN DOWN INTO FOREIGN COSTS AND LOCAL COSTS, AND WHILE THE FOREIGN COSTS OF THE CONTENDERS REMAIN COMPETITIVE, THERE IS A GREAT DISCREPANCY BETWEEN US STEEL'S LOCAL COSTS AND THOSE OF THE GERMAN COMPETITORS, AMOUNTING IN THE CASE OF GHH TO CLOSE TO \$100 MILLION LESS THAN US STEEL.

4. A FURTHER COMPLICATING FACTOR FOR US STEEL IS THAT ITS BID FOR THE BILLET MILL, WHILE SUPERIOR TO THE PRODUCTION SPECIFICATIONS REQUIRED IN THE LICITATION FOR BIDS, INCLUDED A PROCESS AND EQUIPMENT NOT IN THE SPECIFICATIONS. THE ONLY AREA IN WHICH US STEEL STILL APPEARS TO BE COMPETITIVE IS IN PROVIDING ONE OF THE ELECTRIC FURNACES.

5. US STEEL OFFICIALS FEAR THAT SOME PRIVATE ARRANGEMENT HAS BEEN REACHED BETWEEN SIDOR AND THE GERMAN FIRMS TO ESCALATE LOCAL COSTS AFTER THE CONTRACTS ARE AWARDED, ALTHOUGH NO ESCALATION IS PROVIDED FOR IN THE LICITATION FOR TENDERS.

6. THE ONLY ASSISTANCE REQUIRED OF THE EMBASSY BY US STEEL WAS TO INFORM SIDOR OFFICIALS THAT WE FIND THE WIDE DISCREPANCY IN THE VARIOUS PROPOSALS SURPRISING AND TO INQUIRE WITH REGARD TO POSSIBLE FUTURE ESCALATION AGREEMENTS.

7. EMBASSY OFFICERS SUBSEQUENTLY INTERVIEWED DR GUIDO BURZI, DIRECTOR OF PLANNING AND DEVELOPMENT AT SIDOR, AND WERE INFORMED THAT IN DR BURZI'S OPINION, THE DISCREPANCY IS DUE TO US STEEL'S FAULTY UNDERSTANDING OF LOCAL COSTS. HE SAID THAT THE GERMAN'S HAD SPENT CONSIDERABLE TIME AND EFFORT MONTHLY INVESTIGATING THEIR LOCAL COSTS AND THUS WERE ABLE TO PROVIDE MORE REASONABLE BIDS THAN US STEEL. HE ATTRIBUTED THE ENTIRE DISCREPANCY IN THE SIZE OF BIDS TO THAT FACTOR.

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8. COMMENT: THERE ARE UNSUBSTANTIATED RUMORS, AS IS FREQUENTLY THE CASE IN BIDDING OPERATIONS FOR LARGE PROPOSALS, THAT THE GERMAN FIRMS HAVE BEEN EXTREMELY GENEROUS IN GIFT-GIVING IN BOTH THE TECHNICAL AND EXECUTIVE LEVELS AT SIDOR. WHILE THE EMBASSY IS UNABLE TO SUBSTANTIATE THESE RUMORS, IT WOULD SEEM THAT A DISCREPANCY OF \$100 MILLION IN THE LOCAL COSTS PORTION OF THIS PROJECT IS OF AN ORDER OF MAGNITUDE TOO LARGE

TO HAVE RESULTED SOLELY FROM POOR ESTIMATES BY US STEEL.
IT IS MORE LIKELY, AS US STEEL HAS SUGGESTED, THAT
SOME PRIVATE AGREEMENT HAS BEEN REACHED BETWEEN THE
GERMAN FIRMS AND SIDOR TO ALLOW FOR THE ESCALATION
OF LOCAL COSTS ONCE THE PROJECT IS UNDERWAY.
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